



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. March 28, 2006. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Clifford T. Hayes
Jeff Cilek
Pamela I. Ahrens

Chairman Olson began the meeting by welcoming Donald Drum as the new PERSI Deputy Director. Executive Director Alan H. Winkle, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon
Dona Van Trease
Bill Palumbo
Janet Jennings
Charlie Brown
Larry Johnson
Doug Bates
Tom Wolfe
Mario Giannini

Mountain Pacific Investment Advisors
IPEA
MPIA
Milliman
REAI
EFIB
Clearwater Advisors
Clearwater Advisors
Hamilton Lane Advisors

MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the February 28, 2006 meeting.

PORTFOLIO

Monthly Portfolio Update: CIO Robert Maynard told the Board that the annual Commercial Mortgage review of DB Fitzpatrick & Co. will be presented at the meeting in Post Falls on May 23, 2006. The contract for the review with Eric Lindner and his team of GMAC Commercial Mortgage has been signed; the only change is that GMAC Commercial Holding (the parent company) has been sold and in several months, the company will operate under a new name - Capmark Financial Group Inc. This does not represent any change in the business units and the same people we have had in the past will be conducting the review.

In his updated investment report dated March 26, 2006, Mr. Maynard said that March has continued the generally upward direction after a robust January and lackluster February. The major market action continues to revolve around perceptions about the length and magnitude of the Federal Reserve increases in the short term interest rates, but a continued strong economy and good corporate profits (with some recent tech weakness) have supported the equity markets, while bonds are still struggling as background concerns about an overheated economy and continued rate increases linger.

The fund has gained 1.3% so far this month and is up 13.5% for the fiscal year-to-date, continuing above the \$9.5 billion level. Emerging markets and the Pacific equity markets are the best performing capital markets for the fiscal year-to-date.

Bernstein Emerging, Zesiger and Genesis are the leading performers in absolute returns, although Bernstein Emerging and Genesis are behind their benchmarks. Zesiger, Donald Smith, and Bernstein Global are the best performers against benchmark. The bond accounts provide little to cheer about either absolutely or relatively. Tukman and Mountain Pacific continue with their struggles, although the past two months have seen some progress. Private equity continues to have good absolute and relative performance.

Of PERSI's major strategic leanings, global equity managers and emerging markets are helping the most relative to the fund's strategic benchmark, and few policies are hurting. Overall, the fund is ahead of the strategic benchmark for the fiscal year by 3.19%.

Mr. Maynard told the Board that in the next three to five years he may not make many noticeable shifts in the portfolio. We will expand private real estate and private equity and some fixed income but nothing major.

Private Equity Strategic Review: Mario Giannini of Hamilton Lane Advisors reviewed the performance, cash flow, diversification and 2006 strategic plan for the private equity segment of the investment portfolio. The portfolio currently consists of 28 relationships and is expected to remain in the range of 25-30 general partner relationships. In response to a question from Chairman Olson, Mr. Giannini said Highway 12 has done everything we expected of them and have provided Idaho investments for PERSI. Frazier and Highway 12 have been very active locally communicating with people and have exceeded our expectations. Trustee Sullivan asked how much is invested in Idaho; of seven companies, three are Idaho based and one has significant Idaho operations.

The Koll investment is proceeding in spite of Don Koll's illness. We continue to be happy with the partnership. There was some discussion about investments in Asia. We will continue to investigate opportunities there to gain experience in that market. Mr. Maynard said that unlike many other funds, PERSI does not have a set private equity allocation we must fill. We ask our advisors to bring only very good, appropriate opportunities to us. Mr. Maynard said he may schedule an investment subcommittee meeting in late April to discuss additional opportunities.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Managers expect the Federal Reserve Board to continue to raise short term interest rates, perhaps up to 5% or 5.5%. They said economists believe we are not headed for a recession as there is a strong supply of global savings and inflation is in check. Mr. Palumbo said the Federal Reserve Board wants less than 3% GDP growth and will continue to tighten until there is a slowdown.

EXECUTIVE DIRECTOR

Indemnification: Mr. Winkle introduced Rick Thompson from the Department of Administration, Risk Management. Mr. Winkle then reviewed the issue of indemnification with which the Board has been concerned and which has been discussed at recent meetings. SB 1411 which has passed both the Senate and the House clarifies the relationship between the Idaho Tort Claims Act and the PERSI statutes. It also specifies those covered must be performing their duties within the course and scope of their employment to be eligible for defense and indemnification.

The second piece of the issue, hiring and retaining council, has been addressed by the Attorney General's office in a policy memorandum.

The third piece of the issue involves issues falling inside the tort claims act. PERSI had received a letter from Mr. Thompson dated March 24, 2006; Mr. Winkle had asked him to attend the meeting to review current procedures and answer questions from the Board.

Mr. Thompson discussed the procedure his department follows when claims are filed. They are first examined to ensure they meet the

requirements of the tort claims act. The department has 90 days to either settle the claim or to deny the claim. If their decision to deny a claim is disputed and a lawsuit is filed, the Attorney General's office or outside counsel will handle the case.

Mr. Thompson understands the Board's concern with providing a defense. He assured the Board that unless the matter in question is outside the course and scope of the position or with criminal intent, Risk Management will defend the Trustees. If it is questionable whether the claim is outside the course and scope of the position or was committed with criminal intent, Risk Management would defend with reservation of rights. If the court subsequently determines the act was outside course and scope of employment Risk would take action to recoup defense costs from the employee.

He told the Trustees that his department has not in the past and does not currently pursue individual or corporate insurance policies in tort claim cases. If a claim is made against a Trustee, Risk Management has no knowledge of any personal insurance that Trustee might have. The rebuttable presumption of the tort claims act is that if a decision was made at the employee's place of employment, it is within course and scope. Until a court of law says the employee acted **outside** of the course and scope, Risk Management will not make a claim against personal or other liability insurance of a Board member. In the event the court does rule against the Trustee, the Trustee is then liable and the state would pursue it.

Chairman Olson thanked Mr. Thompson for his presentation and time spent working with the Attorney General and PERSI staff on this issue.

Status Update: Mr. Winkle reviewed his status report memorandum dated March 27, 2006. A detailed report on the Business Process Re-Engineering Project had been provided by Stacy Jones.

The Disability Claims Adjudication RFP scores have been submitted to the Division of Purchasing for their final approval and award of the contract.

The Choice Plan Recordkeeping Contract RFP proposals are due April 3 and semi-finalists will be identified by May 11, 2006. We are also ready to release an RFP for the audit of the actuarial audit. As that audit approaches, the Board will decide whether to remove the postponed contribution rate increases from the calculations to determine where the plan funding stands without those possible increases.

We are also in various stages of the recruitment process for an IT Help Desk position, a technical writer to maintain the Online Guideline, an Answer Center Supervisor and a data quality analyst. We plan to have all of these positions filled by the end of the fiscal year. A replacement for Training Specialist Bill Duncan will also be hired. Mr. Duncan submitted his resignation effective March 31 to pursue other opportunities in the private sector.

Legislative Update: Most PERSI bills are waiting for the Governor's signature. A bill to fund the magistrates failed in the House. We will

continue to monitor developments concerning the magistrates. Only the magistrates are in the PERSI system; other judges participate in the Judges Retirement System.

FISCAL

Fiscal Update/ Administrative and Portfolio Reports:

Financial Officer James Monroe told the Board that PERSI's total budget allocation is in two different bills this year because of the way employee compensation was approved. He reviewed the Administrative report which detailed the four vacancies for which we are now recruiting. Operating expenses were 43% of the expected 67% mostly due to projects which are deliverable driven. The Employer Service Center remodeling is complete; he invited the Board to tour the area at their convenience. Total expected portfolio expenses for this period of time is 67% of the yearly budget. The actual expense percentage is currently 57% which includes management fees and portfolio staff expenses. Management expenses fluctuate because of the manner in which we are billed.

FUTURE MEETINGS:

We are making plans for the May meeting in Post Falls, planning to travel the previous afternoon to be ready for the morning meeting. Staff and Trustees will return to Boise after the meeting. We plan to use commercial airlines for travel.

April 25, 2006, 8:30 a.m., Boise – PERSI office

May 23, 2006, 8:30 a.m., Red Lion Templin's on the River, Post Falls, ID

No June Meeting

July 25, 2006, 8:30 a.m., Boise – PERSI office

Adjournment: At 10:20 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director